

CIA/OCI/SR 0400/69B SOV ECON PERFORMANCE  
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Approved For Release 1999/09/25 : CIA-RDP85T00875R001500010004-7

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DIRECTORATE OF  
INTELLIGENCE

MICROFILMED

# WEEKLY SUMMARY

*Special Report*

*Soviet Economic Performance*

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**Secret**

Nº 675

12 December 1969  
No. 0400/69B

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### SOVIET ECONOMIC PERFORMANCE

In a speech marking the 52nd anniversary of the Bolshevik Revolution, Soviet Chief of State Nikolay Podgorny commented on a number of subjects but devoted a large measure of attention to the unsatisfactory state of economic affairs. His boasts of economic achievements were mingled with admissions of shortcomings. Podgorny noted euphemistically that the showing of agriculture this year was "not bad" considering the adversity of prevailing weather conditions. He went on to say that construction organizations had been performing poorly but that yet another revision of the system of planning and incentives in this sector was under way in an effort to improve the situation. Consumer well-being, he admitted, "is not, perhaps, rising as rapidly as we all wish." This he attributed primarily to the failure to increase labor productivity as rapidly as called for in the current five-year plan.

Podgorny's negative remarks were neither extreme nor original. They are noteworthy primarily because they were delivered on the anniversary of the revolution, an occasion that usually is considered to be reserved for positive statements and downright bragging by Soviet leaders. The admission of shortcomings by the Soviet chief of state in a 7 November speech is taken as a new indication that the top leadership is troubled by the economic situation. Addressing the International Communist Conference last June, party chief Leonid Brezhnev had observed that the Soviet housing problem is acute and that consumers' needs are not being fully met. Politburo member Shelepin echoed these observations in a speech delivered in October at the Congress of the World Federation of Trade Unions in Prague. Both of these leaders attributed the slighting of consumers' needs to the necessity of satisfying the priority requirements of defense.

The disquiet of the Soviet leaders is well founded. The Soviet economy simply is not performing well. It is not on the verge of collapse or even stagnation, nor has it lost its capability to provide the wherewithal for the execution of high priority, strategically important tasks. But the growth of Soviet economic production has slowed, and certain rather basic economic problems have become chronic and increasingly troublesome.

Special Report

- 1 -

12 December 1969

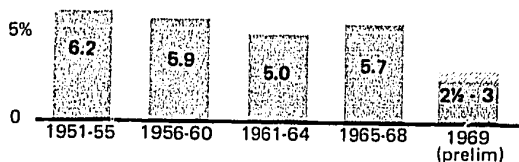
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## GROWTH PROBLEMS

During the 1950s the Soviet Union increased its GNP at an approximate average annual rate of 6 percent. In the 1960s the growth of Soviet GNP has been irregular, and generally not as rapid. This year it is estimated at an anemic 2.5 to 3 percent. The deceleration of economic growth inevitably must be a matter of serious concern to the Soviet leaders. Fulfillment of Soviet aspirations in the areas of international influence, strategic capability, and consumer well-being requires sustained, relatively rapid, economic growth.

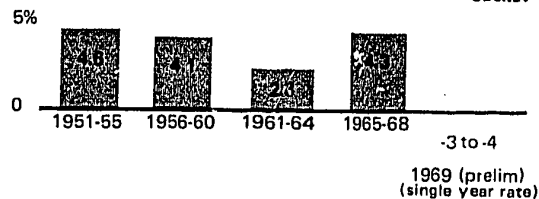
USSR: Growth of Gross National Product  
Average annual rates  
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In the USSR, the development of agriculture traditionally has been subordinated to the development of other sectors of the economy. Moreover, agriculture is uniquely vulnerable to adverse weather conditions. It is not surprising therefore that the agricultural sector exerts a drag on, and serves as a source of irregularity in, Soviet economic growth. Agricultural production (measured by a three-year moving average to reduce fluctuations caused by year to year variations in the weather) increased by an average of less than 4.5 percent per year during the 1950s, then by only 2.3 percent per year during 1961-64. It jumped by 6 percent annually during 1965-66 but increased by a scant 3 percent per year during 1967-68.

According to preliminary estimates, farm output not only failed to increase this year but in

USSR: Growth of Agricultural Production  
Average annual rates based on  
three-year moving average.  
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fact declined 3-4 percent from the level achieved in 1968. Total crop production in 1969 was perhaps 5-6 percent below the 1968 total. Grain production is believed to have fallen from 135 million metric tons in 1968 to 125-130 million this year. Even though 1969 grain production was somewhat below the 1966-68 average of 132 million metric tons, it was about one third greater than the nearly disastrous harvests of 1963 and 1965. This year's grain harvest should be sufficient to meet domestic needs for flour products and to permit the fulfillment of export commitments. The output of livestock products was no greater this year than last and may have been slightly less. Given continuing population growth, failure to increase the output of animal products constitutes a setback to the program for upgrading the presently low quality Soviet diet.

If growth problems have been centered in the agricultural sector, they have not been confined to it. The average annual rate of growth of industrial production declined from 11 percent in the early 1950s to 8.5 percent in the late 50s, then stabilized at 6.5 percent during 1961-68. This year, industrial production is running only about 5 percent above last year's level.

Because of the high priority accorded the industrial sector, the deceleration in industrial growth probably is a matter of greater concern to the Soviet leaders than the oscillation and slowdown in agricultural growth. The output of a

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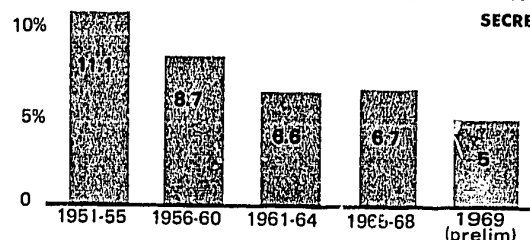
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number of industrial products that are vital to investment programs has been increasing at lower rates this year or—in isolated cases—actually has declined. A comparison of the percentage changes that occurred in the output of selected products between the first three quarters of last year and the corresponding period of this year to percentage changes registered from calendar 1967 to calendar 1968 reveals a number of specific problem areas. The growth of crude petroleum output slowed from 7.5 percent to 5, the growth of rolled steel output from 5 percent to 2.5, and the growth of steel pipe production from 6 percent to 2.5. Meanwhile, the rate of change of timber production declined from -0.5 percent to -2 percent, the rate of growth of cement output from 3 percent to 1.5, the rate of change of brick production from near zero to -2 percent, and the rate of growth of window glass output from 4.5 percent to 1.

The poor showing in the production of construction materials suggests that little improvement is being made during the second half of 1969 on the modest 4 percent year-to-year increase in investment that was posted during the first six months. Of importance to the agricultural sector is a slowdown in the growth of mineral fertilizer output from 8.5 percent to 6. In the consumer nondurable sector, the growth of soft goods production slowed from 5.5 percent to 5 and the growth of processed food output from 4.5 percent to 1. On the other hand, in the broad category labeled civilian machinery, which includes both producer and consumer durable goods, growth was maintained at the relatively high rate of 9 percent.

Podgorny's remarks concerning lagging growth of labor productivity (output per worker) in agriculture and industry are an implicit recognition of the slowdown in economic growth. By international standards, an uncommonly large

USSR: Growth of Industrial Production  
Average annual rates  
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percentage of the able-bodied Soviet population of working age is gainfully employed and has been for a number of years. Moreover, population growth slowed in the 1960s, and even during the 1970s will not recover the rate posted in the 50s. Hence a rapid increase in total production cannot be achieved by rapidly increasing the number of workers. It must come instead from increased output per worker, fostered by the application of larger quantities of production aids and by technological improvement.

#### SOURCES OF DIFFICULTY

Preliminary estimates now indicate that the growth of GNP has been slower this year than in any year since 1963, when bad weather caused a disastrous agricultural harvest and contributed to a slowdown in industrial growth. This year also has been marked by bad weather and a decline in agricultural production, but weather is merely the most visible source of trouble.

The agricultural problems alone are sufficiently grave and intractable to give Soviet leaders restless nights. Not only is the agricultural sector hard pressed to increase the supply of food and fiber in pace with the needs of a modernizing and moderately growing population, but it ties down an anachronistically large portion of the labor force. More than 40 million people are employed in agriculture in the USSR—nine times as many as

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in the United States. Moreover, although only minimal investment was allocated to agriculture during the Stalin era, rather large quantities have been allocated in recent years. The agricultural sector now absorbs more than one-sixth of fixed investment. Soviet agriculture has been recalcitrant toward socialized organization since the very beginning of large-scale collectivization, and the cautious reform under which state farms now are being transformed into "autonomous" accounting entities is not likely to yield substantial improvement. Collective farms, which still cultivate about half the sown area, always have had a similar autonomy but have compiled a lackluster record. Still greater investment in agriculture is required if the neglect of earlier years is to be corrected. The adverse effect of the slowdown in investment growth—which, ironically enough, occurred shortly after the 1965 announcement of the "Brezhnev program" for boosting agricultural investment—may now become evident.

Serious production problems also exist outside of agriculture. The rate of growth of industrial production, down seriously this year, may turn out to be lower than in any other year in the post - World War II period. The reasons are varied. In the first quarter of this year all economic sectors were affected adversely by extremely bad weather that disrupted transportation and retarded production. The slowing in industrial growth also has more ominous causes. Among these are the deceleration that has taken place since 1960 in the growth of investment in industry, a slowing of the growth of the industrial labor force, an apparent slowdown in the rate of technological progress, and the inability of the cumbersome planning and administrative apparatus to cope with increasingly massive and complex tasks.

Investment in industry could be stepped up by diverting resources from other objectives. The

diversion of resources, however, from current consumption or from investment in such consumer-oriented areas as housing or agriculture would be distasteful to the Soviet leaders because it would constitute the abandonment of popular programs to which they have committed themselves with more than a little fanfare. Although per capita consumption has more than doubled since 1950, measured against Western standards the Soviet consumer still fares poorly in clothing and consumer durable goods, housing, and quality foods. To label a sacrifice of consumer well-being distasteful to the Soviet leaders does not mean that such a sacrifice will not be made if expediency dictates. The diversion of resources from defense could be a good deal less palatable to the Soviet leaders. As the leaders must have noted, however, the longtime practice of boosting the amount of capital available per worker via an ambitious investment program has been yielding diminishing returns in recent years.

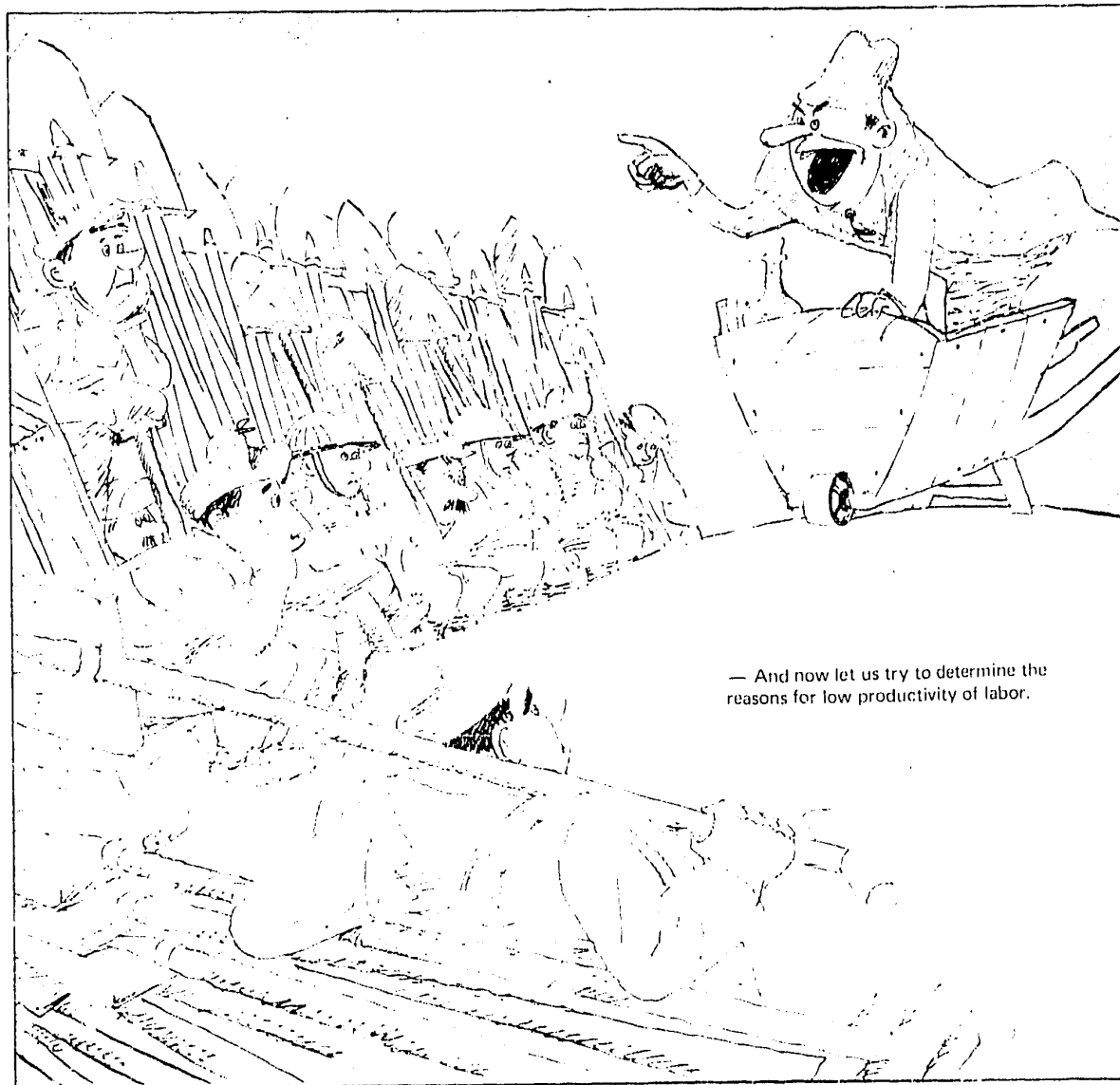
The rate of growth of the industrial labor force has slowed down and apparently will not revive during the next several years. In years gone by, the industrial labor force grew rapidly because the working age population was growing rapidly, because large numbers of workers were transferred from agriculture to industry, and because many people who had not been employed in the socialized sectors were drawn into industrial work. The working age population now is growing more slowly, and opportunities for drawing people from housework or other private activities into socialized industry have been largely exhausted. Although there is still a large pool of labor in agriculture, there is reluctance to draw deeply from this pool for fear of aggravating the chronic problems of the agricultural sector. Soviet authorities are making some efforts to reallocate the nonagricultural labor force. These efforts include the establishment of employment agencies or labor exchanges, an attempt to reduce the

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Special Report

- 5 -

12 December 1969

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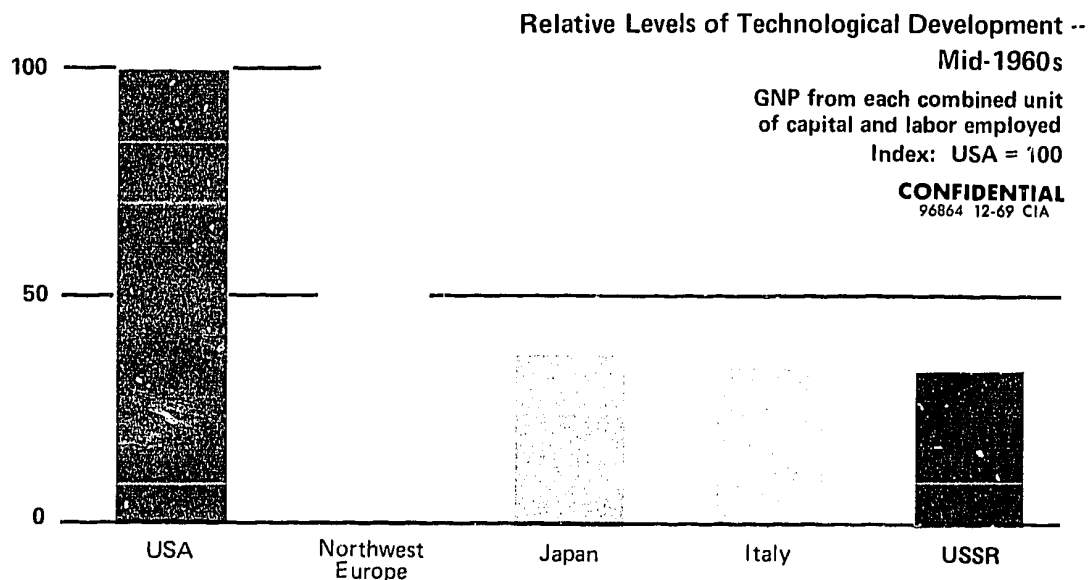
number of people assigned to administrative tasks, and experimentation with a system of procedures and bonuses designed to induce managers to release unnecessary workers. The latter, dubbed the "Shchekino experiment" after the place of its introduction, is controversial because it increases unemployment while released workers are being relocated and because it raises ideological and bureaucratic problems. Besides pressing for a redistribution of labor, Soviet authorities are trying to bring into the labor force more housewives and people who have been pensioned for reasons of health or age.

#### TECHNOLOGICAL LAG

For the Soviets, accelerated technological progress is the most attractive and promising source of economic growth. The great potential for technological improvement is apparent in the extent the USSR lags behind the advanced West-

ern nations in the amount of production obtained from each combined unit of capital and labor employed. By this gauge, the Soviet level of development is comparable to that of Italy, less than two thirds that of the countries of northwestern Europe, and only about one third that of the United States. The magnitude of the Soviet technological lag is so great as to hold out the promise of tremendous economic advances from the mere copying of developments and discoveries that already have been pioneered and proven in the West.

Closing the technological gap is not proving to be an easy task for Soviet leaders. In fact, technological progress as measured by the estimated average annual increase in the productivity of combined inputs of capital and labor has slowed from 3 percent per year in the 1950s to less than 2 percent in the 1960s. Soviet research organizations have been the target of public



Special Report

- 6 -

12 December 1969

SECRET

SECRET

accusations of irrelevant and fruitless activity, and the incentive systems in these organizations were altered in October 1968 in an effort to encourage more practical work. In part, the Soviet difficulties are rooted in the fact that bonuses offered to the personnel of producing enterprises for introducing new production methods or for updating their products are not sufficient to overcome bureaucratic inertia and the negative incidental effects of bonuses based on other criteria. Various suggestions have been made in the Soviet press for organizational changes and changes in planning methods that supposedly would facilitate technological progress. Many articles have exhorted researchers, managers, and even ordinary workers to do more to foster such progress. To date, however, the results of this publicity have not been perceptible.

A radical revision of the Soviet economic system itself is the change that could make possible more rapid innovation and more efficient economic activity in general. Such a reform would aim at providing flexibility, inducements, and guides to decision-making that would bring more rationality into choices regarding not only innovation but also such matters as product mix, sources of supply, and alternative materials. The very limited reform that has been under way since 1965 has yielded little improvement along these

lines. The success criteria established by that reform are undermined by the failure to institute a system of pricing responsive to the relative demand for and the true economic cost of different goods and services. Reliance therefore must continue to be placed on administrative rules and commands.

#### THE ECONOMY CREAKS AHEAD

In light of the current tendency of the Soviet economy to develop less rapidly than in the past and the continuing inability of its masters to come to grips with its basic problems, some cautious predictions can be made concerning Soviet economic performance in the early 1970s. Really sizable shifts of resources from defense and consumption to investment seem unlikely. Shifts within the investment category probably will not be sufficient to exert great impact on the growth of output. There is no indication that the Soviet leaders will find a way to bring about the rapid increase in technological development that they obviously desire. Given their cautious nature, it is unlikely that they will permit a radical reform of the economic system. Tinkering with investment flows, labor allocation, and organizational relationships can be expected to continue. At best, growth of output may continue at the rates achieved in the last several years. (SECRET)

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Special Report

- 7 -

12 December 1969

SECRET